

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MARCH 16, 2021**

ITEM 2

SUBJECT

CONSIDERATION OF A RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR OR DESIGNEE TO EXECUTE A LOAN AGREEMENT WITH THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBANK) FOR UP TO \$50 MILLION IN CLEAN WATER STATE REVOLVING FUND (CWSRF) STATE MATCH

DISCUSSION

The CWSRF program provides low-interest loans and principal forgiveness to municipalities for the planning, design and construction of wastewater, water recycling and other eligible projects throughout California. The CWSRF is capitalized by annual grants (capitalization grants) from the United States Environmental Protection Agency (U.S. EPA). In addition to capitalizing the CWSRF for long-term infrastructure financing, the capitalization grants also provide supplemental CWSRF administration funds and principal forgiveness for small disadvantaged communities and other eligible recipients. In addition to capitalization grants, the other funding sources within the CWSRF include associated State Match funds, loan repayments, interest and investment earnings and leveraged funds (i.e., revenue bonds).

As a condition of the capitalization grant awards, States must provide matching funds equal to 20 percent (20%) of each capitalization grant (State Match). The State Match must also be deposited in the CWSRF. Once deposited, the State Match must then be disbursed either proportionally with the associated capitalization grant or prior to the disbursement of any capitalization grant funds.

Past State Match for the CWSRF program has been provided by a variety of funding sources, including proceeds from the sale of general obligation bonds and local match funding to municipalities. Local match funding has been the dominant source of State Match funding for the last several years. Collectively, these sources have provided sufficient State Match from program inception through the 2019 CWSRF capitalization grant.

Additional State Match is needed, however, to fully draw down the 2020 capitalization grant. Additional State Match will be needed for the anticipated 2021 and 2022 capitalization grants. The State Match is critical to ensuring that the CWSRF can draw from these capitalization grants as needed to meet the disbursement needs of existing and new CWSRF encumbrances.

The State Water Board does not have any General Fund or general obligation bond appropriations that can provide State Match for the CWSRF. The Division of Financial Assistance (DFA) has also attempted to award additional local match financing in recent years. Current interest rates on standard CWSRF loans, however, are less than the effective interest rate on local match loans, making this option unworkable.

The immediate options for obtaining State Match are (1) a short-term loan with the IBank or (2) the sale of short-term revenue bonds on the municipal bond market. The State Water Board has completed two short-term State Match loans with the IBank for the Drinking Water State Revolving Fund (DWSRF) program in 2014 and 2016, respectively. The State Water Board has no plans currently to sell revenue bonds on the municipal market, and a sale of short-term revenue bonds solely for State Match would require an undue cost and commitment of staff resources.

Staff proposes a new short-term loan between the IBank and the State Water Board for up to \$50 million in principal amount serving as State Match for the CWSRF program. The transaction with the IBank will be a short-term loan that will be repaid from past interest earnings currently held by the CWSRF. The obligation will have approximately a one-week maturity following closing, with no pre-payment penalty. The obligation will bear interest at the IBank's standard rate. All fees and costs will be rolled into the financing and paid concurrent with the obligation's repayment. The fees and interest charges cannot be determined exactly at this time but are anticipated to be slightly greater than the fees and interest charges on the 2016 DWSRF State Match IBank loan (approximately \$5,000.) Using interest earnings to obtain State Match funds is an eligible use of interest earnings under state and federal law.

The proposed loan with the IBank is anticipated to close sometime in late April 2021 and will allow the State Water Board to resume disbursing the 2020 CWSRF capitalization grant. The proposed loan will also provide for the deposit of State Match for the 2021 and 2022 capitalization grants, which are anticipated to be awarded in September 2021 and September 2022, respectively.

POLICY ISSUE

Should the State Water Board authorize the Executive Director or designee to execute a short-term loan with the IBank to obtain up to \$50 million in State Match funds for the CWSRF?

FISCAL IMPACT

The proposed loan with the IBank will have no effect on the finances of the CWSRF program. There are sufficient interest earnings held by the CWSRF for this loan, and even with the conversion of these earnings into State Match, the converted funds will continue to be available in perpetuity for financing CWSRF projects and generating future earnings.

Due to the short-term nature of the loan and the reliability of using an existing cash balance as a source of repayment, there is minimal risk of default on the proposed transaction.

The loan costs will also not significantly affect the CWSRF program. Due to the short-term nature of the loan, as well as the IBank's unique role as a public agency specifically formed to provide this special type financing, the fees and transaction costs are minimal and far below the costs associated with revenue bonds sold on the municipal market. The staff costs associated with the transaction are also minimal, and will be absorbed as part of the normal administrative costs of the CWSRF program.

If the State Water Board does not execute this loan transaction to acquire State Match for the CWSRF program, then the State Water Board will be delayed in making timely and expeditious use of the 2020 CWSRF capitalization grant, including the principal forgiveness provided for small disadvantaged communities. The State Water Board will also have to seek out other capitalization in lieu of the 2020, 2021 and 2022 CWSRF capitalization grants to meet its existing obligations to local municipalities. The State Water Board may also be delayed in receiving additional principal forgiveness, which is currently anticipated under the 2021 and 2022 capitalization grants.

REGIONAL BOARD IMPACT

Yes. This loan will allow the State Water Board to continue to provide low-interest loans and principal forgiveness to municipalities for eligible CWSRF projects that support the regulatory efforts of the Regional Boards.

STAFF RECOMMENDATION

The State Water Board should authorize the Executive Director or designee to execute a short-term loan with the IBank to obtain up to \$50 million in State Match for the CWSRF.